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VIA ELECTRONIC MAIL ONLY
Elijah O. Abinah
Utilities Division Director
Arizona Corporation Commission
1200 W. Washington Street
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RE: IN THE MATTER OF THE JOINT APPLICATION OF EPCOR WATER ARIZONA, INC. AN ARIZONA CORPORATION: (1) FOR APPROVAL OF ITS PROPOSED STANDPIPE WATER TARIFF; AND (2) ESTABLISHMENT OF A CERTIFICATE OF CONVENIENCE AND NECESSITY FOR STANDPIPE WATER SERVICE ONLY TO THE RIO VERDE FOOTHILLS COMMUNITY (DOCKET NO. W-01303A-22-0264)

Mr. Abinah:

I write to provide an update regarding the potential options EPCOR is evaluating for the Rio Verde Foothills standpipe. The information below is intended to provide Commission Staff with the best information EPCOR possesses as Staff prepares its Report in this matter. EPCOR continues to consider what might be the best, most cost effective configuration for service and will provide updates as they below available. It should be noted that the costs identified below are true estimates provided with little to no information beyond generic knowledge regarding water facility construction. At best, these estimates can be considered rough.

The potential options for a standpipe serving the Rio Verde Foothills fall along a continuum of cost effectiveness, from least expensive to most expensive, as follows:

1. Scottsdale option number 1: use Scottsdale's existing system and standpipe

It is important to note that these first two options can only occur if Scottsdale agrees. Currently, EPCOR is waiting for direction from Scottsdale on whether (and if so how) Scottsdale might be in a position to negotiate an arrangement with EPCOR. EPCOR cannot speak to the issues that might be constraining Scottsdale's ability to partner with EPCOR on a standpipe. It is important, however, that any standpipe arrangement involving Scottsdale be feasible for and beneficial to Scottsdale.

The first Scottsdale option would involve EPCOR offering standpipe service using Scottsdale's existing standpipe. Under this option, EPCOR would bring new wet water to Scottsdale. Scottsdale would treat that water and wheel it through its system to the standpipe. EPCOR customers (through water haulers) would then take water from Scottsdale's standpipe. EPCOR would charge those customers based on information received from

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Scottsdale and would separately pay Scottsdale for the treatment and wheeling services provided by Scottsdale.

This option would be the most cost effective option for the residents of the Rio Verde Foothills. Little to no additional facilities would need to be built for this option and depending on the agreement reached with Scottsdale, the costs would be mostly, if not entirely, expenses rather than capital costs. EPCOR estimates that the cost for EPCOR to provide service under this option before accounting for the cost of water would be $100,000. As with all of these options, these costs would drive the overall revenue requirement underlying the eventual tariff sought in this proceeding.

2. Scottsdale option number 2: use Scottsdale's system and a to-be-built EPCOR standpipe

In the second option, EPCOR would similarly partner with Scottsdale under a long-term arrangement. Instead of wheeling the water treated by Scottsdale to Scottsdale's existing standpipe, however, the water would be wheeled to a new to-be-built EPCOR standpipe that is connected to Scottsdale's system. A site for the standpipe under this option has not been selected. EPCOR would have to construct a water main and related facilities for its standpipe and connect it with Scottsdale's system.

As with the first Scottsdale option, this option could only proceed if Scottsdale agreed. The new facilities needed for this option would be the standpipe and the water main connecting Scottsdale's system to the standpipe. EPCOR estimates that the cost for EPCOR to provide service under this option before accounting for the cost of water would be $1,000,000 to $1,500,000 with the range determined by the length of the water main.

3. Rio Verde option 1: connect a new standpipe to Rio Verde Utilities' existing system

This third option would not require permission from a third party, but instead involve connecting a newly constructed standpipe to Rio Verde Utilities' distribution system. Using an existing distribution system might avoid the need to construct a separate storage tank, but building a standpipe in the Rio Verde Utilities area would necessitate equipping an existing well with new arsenic removal facilities and replacing aged water main sections that are currently incapable of handling the additional flows. As with the prior options, EPCOR would bring new water to the Rio Verde system and replenish, gallon for gallon, any water pumped from this well. EPCOR has not identified a site for where this standpipe and well might be located.

This third option is the third most expensive option. EPCOR estimates that the total cost for EPCOR to provide service under this option before accounting for the cost of water would be over $6,000,000.

4. Rio Verde option 2: build a standalone standpipe in the Rio Verde Foothills area

This final option is the most expensive option EPCOR could pursue. EPCOR would drill a new well, add arsenic treatment, and construct a standpipe. Because these facilities would not be connected to a distribution system, however, EPCOR would need to also build a separate storage facility. EPCOR has not identified a site for where this standpipe and well might be located.

EPCOR estimates that the total cost for EPCOR to provide service under this option before accounting for the cost of water would be $10,000,000.

A final possibility that has been brought to EPCOR's attention would involve EPCOR obtaining a traditional CC&N covering the Rio Verde Foothills area. EPCOR did not apply for a traditional CC&N and, because it is cost prohibitive as discussed below, is not interested in providing traditional service to the Rio Verde Foothills community. Nonetheless, as a point of comparison, EPCOR provides the following detail.

With a traditional CC&N, EPCOR would not provide service through a standpipe, but instead provide typical water distribution service through a yet-to-be-built water production and distribution system. Under this configuration, EPCOR would need to evaluate whether it would also need to build the facilities for and provide wastewater service, or whether the existing water disposal methods used by Rio Verde Foothills residents (e.g., septic tanks) were adequate and appropriate.

As discussed in my August 26, 2022 letter in Docket No. 22-0194, the costs involved with this option preclude it from serious consideration by EPCOR. To build a traditional distribution system in the Foothills area, EPCOR would need to start from scratch with an unknown number of miles of distribution system, at least one new well, and one or more storage tanks, among other facilities (e.g., pumping stations). EPCOR has not done sufficient analysis to offer a reliable estimate for this option, but it would not be a surprise if the total cost for providing traditional distribution service would exceed $140,000,000.

In addition, there are two considerations for evaluating this option. First, the number of customers over which these costs would be spread is small, numbering only in the several hundred. As a result, any tariff designed to collect these costs from this limited number of customers would be substantial. Second, it is not clear how many of the customers living in this area desire traditional service. The more customers in the Foothills area that opt out of receiving traditional service, the more inefficient (and expensive) this option becomes.

I hope this information is helpful to Commission Staff. Should you have any questions, please do not hesitate to contact me.

Sincerely,

Thomas Loquvam
General Counsel and VP, Public Policy